incomes commission

des prix et des revenus

December 14, 1970

[General publications]

[G-33] MANUFACTURED EDIBLE OIL PRODUCTS

Prices and Incomes Commission

John H. Young
Chairman

m G. Barrow
sioner

George E. Freeman
Commissioner

George V. Haythorne
Commissioner

CANADA

Prices and incomes commission

Commission des prix et des revenus

December 14, 1970

[General publications]

[-6-33] MANUFACTURED EDIBLE OIL PRODUCTS

Prices and Incomes Commission

John H. Young
Chairman

Bertram G. Barrow
Commissioner

George E. Freeman
Commissioner

George V. Haythorne
Commissioner

FOREWORD

Following discussions with representatives of the Canadian business community, the Prices and Incomes Commission called a National Conference on Price Stability to obtain a consensus on a program of price restraint. Those present at the conference, held in Ottawa on Feb. 9-10, indicated that, in their view, Canadian business firms would be willing to exercise a meaningful degree of restraint in their pricing policies in 1970. There was broad agreement that business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970 and would ensure that price increases were clearly less than the amount needed to cover increases in costs.

It was agreed that the Commission would keep export industries under review and when developments in one of these industries impaired the general price restraint program, appropriate solutions would be sought.

At a Federal-Provincial Conference of First Ministers, held in Ottawa on Feb. 16-17, 1970, the Heads of Government endorsed the Commission's plan. Governments expressed the hope that sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria.

MANUFACTURED EDIBLE OIL PRODUCTS

Introduction

The three major products of the edible oil manufacturing industry are margarine, shortening and salad oils.

Late in 1969, manufacturers' selling prices of margarine were increased by varying amounts. This was followed by a series of price increases of margarine and other edible oil products during 1970, reflecting sharply higher costs of vegetable, animal and marine oils. The results of a preliminary study indicated that a full-scale price review should be undertaken.

Eight manufacturers of edible oil products account for more than 90 per cent of Canadian output. All but one of these companies co-operated fully with the Commission and supplied the financial and other information which it requested. Kraft Foods of Canada Ltd. has refused to provide all of the financial data on costs and profits requested by the Commission in order to determine whether this company's pricing action meets the criteria. The Commission is, therefore, taking steps to obtain from the company the data which it requires and will report on Kraft at a later date. The president of Kraft Foods was present at the National Conference on Price Stability in February, 1970.

Background

The edible oil industry manufactures more than 600,000,000 pounds of these products each year, with a value in excess of $150,000,000. Output in 1969 was divided into the following product groups:

Edible Oil Production in 1969

Margarine	203 million pounds
Shortening	308
Salad Oils	114
Total	625

The eight major manufacturers of edible oil products are: Canada Packers Ltd., Monarch Fine Foods Ltd., Standard Brands Ltd., The Procter and Gamble Co. of Canada Ltd., The Canada Starch Co. Ltd., Westminster Foods Ltd., Kraft Foods of Canada Ltd. and Western Canadian Seed Processors Ltd.

The price restraint criteria are designed to be applied to the circumstances of individual companies which implement price increases. In accordance with the procedures agreed to at the National Conference, the Commission has requested financial information from the main manufacturers in order to determine the position of each company in relation to the criteria.

The criteria also stipulate that 1969 or the nearest fiscal year will in general be used as the base period when

considering changes in costs and revenues and that a suitable alternative base period would be selected only if 1969 were clearly inappropriate. This point has been reviewed with the companies. In three cases, 1969 earnings were abnormally depressed relative to prior years and 1968 was chosen as the base. In the case of Kraft Foods Ltd., the very limited data provided for 1969 and 1970 do not permit establishment of a base period, nor do they include a complete statement of costs and profits for 1970 and prior years.

Prices and Costs

Sharply rising oil costs in the fall of 1969 resulted in list price increases late in the year for some brands of margarine by as much as two cents per pound. The move was not general and, although other producers increased list prices in January, the price picture became somewhat confused. Some producers were forced by competition to reduce list prices on certain brands. Then, in early spring, another upward movement began in margarine prices at the manufacturers' level and some brand-name products were increased by as much as three cents per pound. In November the Commission was notified by certain companies of additional margarine price increases. Whether this will become general throughout the industry is not known at present.

Manufacturers also increased prices of shortening during the first half of 1970 and by July these were about 10 per cent above the levels of December, 1969.

Prices of salad oils increased appreciably during the same period.

Vegetable, animal and marine oils account for up to 75 per cent of total manufacturing costs of margarine and shortening and slightly less than 50 per cent of the manufacturer's selling price. The cost of such oils make up an even greater percentage of the manufacturing cost of salad oils.

Vegetable oils accounted in 1969 for more than 75 per cent of the total volume of oils used, animal oils made up 18 per cent and the remainder consisted of marine oils. The most important vegetable oils are derived from soyabeans, rapeseed, corn and sunflower seed. A considerable quantity of soyabeans is imported into Canada for crushing. Most rapeseed oil is processed in Canada from Canadian-grown rapeseed. Some animal oils are also imported for use in the manufacture of edible oil products. The proportion of domestic oils consumed by the industry has increased substantially in recent years.

There is a considerable range for substitution among the oils which can be used in the manufacture of edible oil products. Margarine and shortening can be made from most edible vegetable and marine oils. Shortening can also be made from animal oils. Many brands of margarine,

however, use only vegetable oils, which are more costly than marine oils. Salad oils are made only from vegetable oils.

Because of the inter-changeability of edible oils, price trends for the various oils tend to move in concert. The present trend in prices for oils may be traced to developments occurring in 1968. In the fall of that year, large crops in Europe increased the world supply of oil-bearing seeds and prices declined. Oil prices were stable or marginally lower throughout the first half of 1969. By the third quarter of 1969, however, it had become apparent that the 1969 crop was relatively small in a number of European countries and world prices began to rise sharply. Following a short period of lower vegetable oil prices in December, 1969, and January, 1970, prices increased sharply again. Some softening of oil prices was evident during the summer, but in October a new peak was established more than 50 per cent above the average for 1969. This compares with October margarine prices which were about 16 per cent above the 1969 average.

Increased oil costs are thus the major factor contributing to the higher cost of manufacturing edible oil products in 1970. The following table shows how representative vegetable, animal and marine oil prices have increased since June, 1969.

Representative Crude Oil Prices in Canada

	Soyabean	Tallow	Herring
June 1969	9.86¢/lb.	8.9¢/lb.	6.5¢/lb.
November 1969	13.30	12.1	10.25
January 1970	11.96	9.5	10.2
March 1970	15.49	12.75	10.5
July 1970	15.03	11.25	11.5
October 1970	17.15	14.00	11.7

Manufacturers of edible oil products pay these prices plus refining and transportation charges in order to obtain refined oil for processing into final products.

Labor cost is a relatively small item in total manufacturing cost since the process is highly automated. Costs of packaging are larger than are labor costs and, while they have increased, they have contributed much less to the increase in cost than have oils.

Conclusion

No finding is possible for Kraft Foods Ltd. at this time.

Each of the other seven companies has complied with the price criteria established at the National Conference on Price Stability. Two of them expect a loss for the 12 months of 1970, based on an actual loss during the first

nine months in one case and the first 10 months in another. For the other five, the increase in revenues in 1970 is clearly less than the increase in costs when compared to the base year.

- - -